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SUBJECT: SRI LANKA: HUGE PUSH TO DEVELOP THE PRESIDENT'S HOME DISTRICT

1. Summary. Since President Rajapaksa's election, there has been renewed interest in pursuing several infrastructure projects in Hambantota District, his home district and one of the poorest and least developed areas in Sri Lanka. Proposed projects include an international airport, an industrial port, a new town, a convention center, extension of a new highway and extension of a new railway to Hambantota. Many of these projects have been talked about for years, and observers in Colombo and Hambantota are skeptical that they will ever be completed. However, Government of Sri Lanka (GSL) officials point out that this time things are actually happening: work has started, and people are being relocated. Econoff and EconFSN traveled to Hambantota in November to see first hand if progress was being made. After meeting with GSL officials in Colombo and Hambantota, it seems there is sufficient political will to push forward, but no overall strategy for developing the area and a lack of coordination between projects. End Summary.

Rail Service to Hambantota District

2. A rail line near the southern coast of Sri Lanka from Matara to Kataragama, going through Hambantota, would connect Hambantota District to Colombo by rail for the first time. According to officials in the New Railway Ministry, the new stretch will accommodate high speed trains at 100-110 kilometers per hour. The new track will be farther from the sea than the existing Colombo to Matara stretch, making it easier to maintain. Survey work has been conducted by Korea. Several foreign investors, including China, Malaysia, Australia and Korea, have submitted proposals for the construction which will be completed as a 10 year Build Own Operate Transfer (BOOT) project. A second proposed line would also go to Hambantota from Padukka in Colombo District. According to the New Railway Ministry, the railway will be used to transport oil once the planned refinery is complete and will facilitate the yearly Buddhist pilgrimage to the southern city of Kataragama.

----- Sri Lanka's First Expressway -----

¶3. A new highway, Sri Lanka's first limited access expressway, is being constructed from Colombo to the southern city of Matara, located 100 miles away from Colombo. This expressway will accommodate speeds of up to 120 kilometers per hour and will cut the commute from Colombo to Matara from 5 hours to about 1.5 hours, a significant achievement since current travel times are often cited as a primary cause of the Southern Province's underdevelopment. A feasibility study is also underway for extending the new highway to the planned new airport in Wirawila in Hambantota Province. The Director of the Southern Transport Development Project, told Econoff that the Asian Development Bank (ADB) recently agreed to widen the road from two to four lanes after safety studies revealed that a two lane expressway would be dangerous. The road will have 10 intersections between Colombo and Matara, will be fenced, and will have a toll to cover maintenance costs. Hundreds of families have been relocated to construct the road. They received compensation packages including electricity, water, land, and income replacement. Many encroachers were even given deeds to their new land, making them more economically secure.

¶4. Econoffs were able to travel along a 10 kilometer stretch of road from Galle to Matara, parts of which are already paved. Underpasses are being constructed to allow people and cattle to easily cross under the street. Drainage systems are being put in place, and grass is being replanted where the hillside was cut away. The highway has the appearance of any first-world highway (albeit undivided) and, once completed, will provide an entirely new travel experience for Sri Lankans accustomed to narrow two-lane roads full of potholes and obstructed by pedestrian and animal traffic.

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----- An Industrial Port for the Future -----

¶5. The biggest of the planned new projects is an industrial port in Hambantota. The proposed port will process coal, cement and oil, and is intended to become a container port in 30 to 40 years when Sri Lanka's main Colombo Port reaches capacity. Sri Lanka Port Authority (SLPA) officials say it would currently be too difficult and politically sensitive to shift container traffic away from Colombo since the business district is in Colombo. GSL port planners argue that Hambantota is a highly strategic location for a port because it is less than one hour from the major shipping lanes that run just south of Sri Lanka, while Colombo is nearly 8 hours travel time from these shipping lanes. Planners argue that this proximity, as well as the natural harbor depth of 20 meters, makes Hambantota ideal for a deepwater port handling transshipment, industry and refueling. SLPA officials admit, however, that Colombo may always be the best location for a container port in Sri Lanka since it is closer to India, Sri Lanka's biggest shipping customer.

¶6. According to the Deputy District Secretary in Hambantota, nearly 2,500 acres of land have been set aside for the port project. Feasibility studies for the overall basic design were conducted by the Danish firm Ramboll, and detailed designs of the breakwater are being provided by a Chinese firm recommended by the Chinese Embassy. An MOU was signed agreeing that Sri Lanka and China would produce the detailed plans together, that there would be joint ownership of the plans, and that the Chinese government would provide funding for the project as long as the recommended Chinese firm was used to build it. The SLPA is hoping that China will offer the initial \$300 million at a concessionary 3 percent interest for 5 years. If the Chinese funding does not come through, the SLPA will have to buy out the Chinese portion of the plans and find alternate funding.

¶7. The plans for the port are scheduled to be completed in early 2007. Environmental studies have been submitted and a public hearing will be scheduled. The \$300 million for Phase 1 will cover three berths, the breakwater and several small tugs. Phase 1 could

start as early as April 2007 and will take two and a half years to complete. Once construction starts, the SLPA will launch a campaign to attract private investors for the next phases. The final size of the planned port will accommodate 20 million containers. In contrast, Colombo Port currently accommodates only 3 million.

18. Since President Rajapaksa's election, the focus of the Hambantota port project has shifted from only bunkering to a full industrial port. The SLPA is currently looking for interested investors. SLPA officials say there has been interest from the cement and power industries as well as commodity storage and bunkering. Tillak Collure, Secretary of Ports and Aviation, told Econoff that Indian companies have been coming to look into the new port and are interested in investing. Part of the port project includes an oil tank farm connected to the port. These tanks will store oil, gas, and aviation fuel. The oil tank project will be completed through an MOU with a separate Chinese company. The Board of Investment is also considering a proposal for a new oil refinery near the new port.

19. According to the Deputy District Secretary, there has been no opposition to the port. Nearly 400 families are being relocated and compensated. When asked, local officials say there have been no studies conducted on employment generation of the project. One official offered that there would probably be some indirect employment generated since there would be more people around to stay in hotels and eat in restaurants.

An International Airport for the South

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110. A project that has received extensive media coverage recently is the new airport planned in Wirawila in Hambantota District. Secretary Collure justified the new airport to Econoff by explaining

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that Sri Lankan planes currently have to carry extra fuel called a safety load to get them to Chennai in case of an emergency landing. Once Wirawila is up and running they will be able to use that location in emergencies, requiring a much smaller safety load of fuel and saving the airlines fuel costs. Collure also argued that the airport will be a necessity once the port and highway are completed and more people are coming to Hambantota. The airport is also intended to promote tourism in the South; Wirawila is close to Yala National Park and Kataragama, a religious tourism destination. Collure explained that the new airport will be small in size like the Cochin airport in India and will be low cost and environmentally friendly. It will be rustic in appearance, but big and modern enough to accommodate full size commercial aircraft including the new Airbus A380. The airport project was competed through an open bidding process and is expected to take 4 years to complete. It will be entirely government funded and will cost between USD 60 and 70 million. On November 19, a foundation stone laying ceremony was held in the rice paddy fields that are designated to become the new airport.

111. The Deputy District Secretary told Econoff that more than 2800 acres of land have been designated for the airport. Three hundred families will have to be relocated. The government is building new homes for them and working to determine compensation packages. The little opposition there has been to the project has come mostly from encroachers lacking proper title to the land.

Countless New Changes for Hambantota

112. The big infrastructure projects planned for Hambantota bring with them other smaller projects and changes. As a result of the new port, the road from Matara to Hambantota will have to be rerouted up and around the port, away from the sea. The actual town of Hambantota will also be moved 2.5 kilometers north of its current location to the new road. The nearly 6,000 houses constructed after

the December 2004 Tsunami are also located north of the current city and will be close to the new town once it is built. Plans are in the works for a new commercial district, new hotels and a stadium. The Urban Development Council told Econoff that the Korean International Cooperation Agency (KOICA) gave a grant of USD 25.5 million for a convention center in Hambantota. Funding is still needed for the new town center and 26 families must still be relocated. A new administrative complex is also being provided through a Korean loan. The existing town will be converted to a tourism area. A water supply scheme is planned to meet consumption needs. According to the Deputy District Secretary, the Ministry of Promotion of Botanical and Zoological Gardens is also proposing a new botanical garden in the district.

Business Community Remains Doubtful

¶13. Econoff met with the Hambantota District Chamber of Commerce where members were eager to share their views with the U.S. Embassy. They expressed concern that the business community has not been consulted about the many development projects. They said they would be happy to see some of the projects come to pass, but suspected that it was all just talk. The Chamber recently sent a representative to meet with President Rajapaksa to request that the government conduct regional development in partnership with the Chamber, but have received no response. There was a sense among the Chamber members that if the port was not built now, business

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opportunities would be grabbed by other ports in the region.

¶14. One of the main concerns of the business community is the state of Hambantota's agricultural sector. Farmers get low prices for produce because they can not get it to market in a timely manner. The district needs transportation facilities like the planned rail and roads. They also said that Hambantota offers no value addition in agriculture and that farmers need better seeds for their crops. According to the Chamber members, the Minister of Agriculture is from Hambantota and wants to help, but is not sure how. The Chamber hopes to work with the National Agribusiness Council to improve marketing.

¶15. The Chamber members are concerned that even if these major development projects come about, they will not generate jobs for the average resident of Hambantota. Locals do not have the skills needed to work in these new industries and there are no programs in place to train them. Even local technical colleges teach outdated skills. They said they took this message to Colombo, but so far they have received no response from the GSL.

¶16. There is a lack of coordination and information dissemination concerning these development projects. The various government agencies are not communicating with each other, much less with the business community or the general public. For example, the Urban Development Authority has not told the business community much about the plan to move the city, leaving a lot of uncertainty surrounding the move. A planned water supply scheme would probably not be big enough to supply all of the new projects with water. The two proposed water lines would run through the same area where the port is planned. The businessmen viewed this as evidence that neither project would actually ever be completed. The airport is being built on lands that were only recently converted into paddy fields. The Chamber members claimed that the government is still repaying the loan they took out to create those paddy fields and now they are destroying them, leaving the taxpayers to bear the cost of this lack of planning.

Comment

¶17. After meeting with GSL officials in Colombo and in Hambantota, it seems that there is genuine political will to make these projects happen this time. While most projects are still in the planning phases, significant money has already been spent on their

development, on acquiring land and resources, and on relocating people who live in the project areas. The government also seems to want to do things the right way and is taking great care to conduct environmental studies, compensate relocated people, and bring in experts for technical advice.

¶18. The problem, however, is that the projects are being driven from the top down. President Rajapaksa wants big improvements to happen quickly and has chosen large projects that will attract a lot of attention and praise for him and his party. Unfortunately, little thought has been put into what Hambantota District actually needs, what types of projects would provide jobs that locals can fill, and what would raise standards of living. There is no strategic approach to developing the region and no coordination between the agencies responsible for the different projects. There also seems to be a lack of understanding, even within the business community, that a certain level of demand and investor interest is necessary for some of these projects to be successful. An empty port, an empty airport, and an empty vast convention center would not generate the benefits that Hambantota needs, and may, if constructed, be considered the President's folly.

¶19. There are practical hurdles as well. This is the first time the GSL has undertaken so many large projects simultaneously, and it is

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not clear where all of the funding will come from. Given Sri Lanka's poor track record for implementation, the completion of these projects in a timely, efficient manner is doubtful. It is also unlikely that the GSL will have the resources to dedicate to coordinating, planning and funding these projects while also managing the ongoing ethnic conflict.

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